

CITY OF BELLINGHAM
Whatcom County, Washington
January 1, 1994 Through December 31, 1994

Schedule Of Findings

1. Public Funds Were Misappropriated And Accounting Records Were Falsified And Destroyed

Our audit of the financial records of the City of Bellingham, revealed that at least \$16,762.07 in public funds was misappropriated by the Parkade office assistant during the period June 1, 1993, through May 5, 1995. In some instances, accounting records were falsified and destroyed in an attempt to conceal these losses. There were no federal funds involved in this case.

A Parkade employee reported irregularities to city officials in May 1995. City officials began investigating these irregularities and notified the Office of State Auditor. On May 18, 1995, the Parkade office assistant was arrested and charged by the city with Theft in the First Degree. The city then requested our assistance in this investigation. As a result, we immediately commenced a special audit of cash receipts at the Parkade and confirmed that a misappropriation of public funds had occurred. The schedule below summarizes these losses:

<u>Description of Loss</u>	<u>Amount</u>
Cash and Checks Stolen	\$ 631.10
Checks Converted to Personal Use	11,357.50
Check for Cash Substitution Scheme	<u>4,773.47</u>
Total Losses	<u>\$16,762.07</u>

These funds were misappropriated as described below.

- a. Cash and Checks Stolen: Payments from various revenue sources, primarily monthly permit parking and parking validation stickers by business owners, were either receipted or entered in the log book at the Parkade. However, these payments were never deposited into the bank. Since no one reviewed the deposits made by the office assistant, this shortage was not noticed by city officials.
- b. Checks Converted to Personal Use: Payments received from a major Parkade customer were deposited to the credit of one of the office assistant's personal credit card accounts. In three cases, a large check was converted to several cashiers checks at a local bank. One of these cashiers checks was then sent in as payment on a personal credit card account. These losses totaled \$8,864.60. In three cases, checks from the same customer made payable to the City of Bellingham were sent directly in as payments on a personal credit card account.

These losses totaled \$2,472.90. In one of these cases, the finance director's endorsement appears to be fraudulent on the back of the check.

- c. Check For Cash Substitution Scheme: Accounting records were manipulated to misappropriate funds by using a check for cash substitution scheme. Payments from a variety of sources were received at the Parkade. In some cases, accountability for these revenue transactions was never established (i.e., cash receipts were not written, or payment for monthly parking permits was not entered into the log book). In other cases, accountability was established by issuing a cash receipt or entering the transaction in the log book. However, no one reviewed the composition of the bank deposits made by the office assistant to ensure that all moneys received were properly deposited into the bank. When checks from these unrecorded transactions were included in the Parkade's bank deposit, a corresponding amount of cash was simply stolen.

RCW 9A.56.030 states:

(1) A person is guilty of theft in the first degree if he or she commits theft of:

(a) Property or services which exceed(s) one thousand five hundred dollars in value other than a firearm as defined in RCW 9.41.010; or

(b) Property of any value other than a firearm as defined in RCW 9.41.010 taken from the person of another.

(2) Theft in the first degree is a class B felony.

RCW 42.20.070 states in part:

Every public officer, and every other person receiving money on behalf or for or on account of the people of the state or of any department of the state government or of any bureau or fund created by law in which the people are directly or indirectly interested, or for or on account of any county, city, town, or any school, diking, drainage, or irrigation district, who:

(1) Shall appropriate to his or her own use or the use of any person not entitled thereto, without authority of law, any money so received by him or her as such officer or otherwise; or

(2) Shall knowingly keep any false account, or make any false entry or erasure in any account, of or relating to any money so received by him or her; or

(3) Shall fraudulently alter, falsify, conceal, destroy or obliterate any such account . . . shall be punished by imprisonment in a state correctional facility for not more than 15 years.

RCW 9A.60.020 states:

(1) A person is guilty of forgery if, with intent to injure or defraud:

(a) He falsely makes, completes, or alters a written instrument
or;

(b) He possesses, utters, offers, disposes of, or puts off as true
a written instrument which he knows to be forged.

(2) Forgery is a class C felony.

The following internal control weaknesses allowed this misappropriation of public funds from the Parkade to occur and not be detected in a timely manner.

- a. There was an inadequate segregation of duties at the Parkade. Practically all of the accounting functions within the Parkade were the primary responsibility of the office assistant. However, there was no periodic management review of the work performed by this individual to ensure that all funds were properly accounted for and deposited into the bank, and to accomplish the same objective as a segregation of duties between two or more employees.
- b. While mode of payment information was recorded on cash receipts issued, this information was not utilized by management officials to periodically review the check and cash composition of bank deposits to ensure agreement with the Parkade's cash receipt accounting records.
- c. Cash receipts were not issued for all payments received. Payments received for monthly parking in the Parkade and in the lots were routinely logged in the log book by date of receipt. However, cash receipts were not always issued for part-time parking permits, validation stickers, and other miscellaneous revenues, unless the customer requested a receipt.
- d. A comprehensive inventory of rolls of parking validation stickers was not maintained or reconciled to either the inventory on hand or the revenue collected.
- e. Apparently, due to the cost of having them printed elsewhere, the office assistant was responsible for preparing and numbering parking permits.
- f. The numerical sequence of cash receipt forms was not properly accounted for or controlled. In addition, there was no management review to ensure that all receipts were accounted for or that the funds for all receipts issued were properly deposited into the bank. Cash receipt forms were not always issued in numerical sequence. In addition, all used cash receipt books could not be located during our audit. These records were apparently destroyed.

During our 1988 audit, we noted cash receipting and billing control system weaknesses within the Parkade and discussed these issues with Parkade management and other city officials. During our 1989 audit, we noted some improvement in procedures, but again discussed our concerns with city officials. In 1991, we met with management on several occasions to discuss changes implemented and options available to further improve internal controls at the Parkade. In June 1993, the Parkade Manager resigned, and a new Parkade manager was not hired until December 1993. When the prior Parkade manager resigned, many of the improvements in internal controls which had been implemented as a result of our prior audits were discontinued. Thus, there was little or no management

review over accounting activities at the Parkade by the new Parkade manager or other city officials during the period of these losses.

The city is self-insured and had no employee dishonesty bond policy for the Parkade office assistant involved in these losses of funds.

We recommend the City of Bellingham seek recovery of the misappropriated \$16,762.07 and related audit/investigation costs from the Parkade office assistant. We further recommend the Washington State Office of the Attorney General and the Whatcom County Prosecuting Attorney review this matter and take whatever action is deemed necessary under the circumstances. Any compromise or settlement in this case must be approved in writing by the Attorney General and the State Auditor as directed by RCW 43.09.260.

We also recommend the city:

- a. Review the accounting controls over cash receipting at the Parkade, correct the weaknesses outlined above, and implement an effective system of internal control designed to ensure the protection of public assets.
- b. Retain all accounting records in accordance with the required retention policy.

2. The City Should Reconcile Golf Course Receipts With Golf Course Management Reports

The city contracts with an outside party to manage the daily operations of the Lake Padden Golf Course. The golf course manager is required to remit to the city a percentage of receipts from golf course concession sales. The golf course management report (prepared by the manager) is used as the basis to determine the city's share of golf course receipts. Deposits from the golf course are received by the finance department, however, these deposits are not reconciled to the monthly golf course management report received by the parks department. In addition, the finance department does not receive supporting documentation("Z-tapes") from the snack bar at the golf course.

The agreement with the golf course manager, dated November 10, 1993, part IV states in part:

The manager shall remit to the City amounts equal to the percentages (after deduction of any applicable sales tax) of the following concession activities:

1. Golf merchandise sales, two (2%) percent of gross receipts;
2. The practice facilities, twenty (20%) percent of gross receipts;
3. Club and pull cart rentals, two (2%) percent of gross receipts;
4. Golf car rentals, three (3%) percent of gross receipts;
5. Sale of refreshments, food, and sundries, one (1%) percent of gross receipts;
6. Beer and wine sales, one (1%) percent of gross receipts;
7. Golf lessons, one (1%) percent of gross receipts;
8. Repair of golf equipment, one (1%) of gross receipts.

RCW 43.09.200 states, in part:

The state auditor shall formulate, prescribe, and install a system of accounting and reporting for all local governments, which shall be uniform for every public institution, and every public office, and every public account of the same class . . .

The accounts shall show the receipt, use, and disposition of all public property, and the income, if any, derived therefrom; all sources of public income, and the amounts due and received from each source; all receipts, vouchers, and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction

The city was not aware that a reconciliation was not performed as no one individual had fixed responsibility for this task.

The purpose of the reconciliation process is to promptly discover any errors or irregularities which may have occurred, and to take action when any errors or irregularities are discovered. The failure of the city to perform the reconciliation exposes the city to the risk that all revenues due the city are not received.

We recommend the city reconcile golf course daily cash receipt records to the end-of-month golf course management report, and to take prompt action if differences are noted.

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Schedule Of Federal Findings

1. The City Should Improve Its Accounting For Fixed Assets

As noted in prior audit reports, our review of the city's fixed assets again revealed the following weaknesses:

- a. The city does not maintain a comprehensive fixed asset detail ledger for general fixed assets or water/sewer utility assets.
- b. With the exception of the internal service funds and the water/sewer utility, the city does not have a system in place to account for surplus or retired assets.
- c. The city does not take a comprehensive annual physical inventory of its fixed assets.
- d. Federal assets are not consistently identified by a serial number or tag number.

The following criteria apply:

The federal "Common Rule" for *Uniform Administrative Requirements for Grants and Cooperative Agreements With State and Local Governments* Subpart A, ____3 Equipment (4)(d) states in part:

- (1) Property records must be maintained that include . . . a serial number or other identification number . . .
- (3) A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property . . .

RCW 43.09.200 requires the State Auditor to prescribe uniform accounting systems. The State Auditor prescribes the *Budgeting, Accounting and Reporting System* (BARS) manual which states in Volume 1, Part 3, Chapter 7:

Accountability for fixed assets is required of all local governments, regardless of size. In addition, fixed asset accounting is required for cities and counties of over 8,000 population . . .

The BARS manual further states:

An adequate fixed asset accounting system will enable your government to meet statutory requirements, to produce adequate records and reports, and to safeguard assets properly.

Additionally, generally accepted accounting principles require accounting for fixed assets

and related depreciation.

The inadequate fixed asset accounting is partially attributed to insufficient resources assigned to this area by city officials. As described in Note 6B, the city began recording fixed asset purchases in the general fixed asset group of accounts December 1, 1984, and information has been collected which will be helpful in valuing assets purchased prior to that time. City officials indicate that they are planning to implement computer software in the near future to account for their general fixed assets.

Adequate safeguarding or reporting of city fixed assets cannot be assured when accounting procedures and controls are not established. We consider these deficiencies in the fixed asset system to be a material instance of noncompliance and a material weakness in internal controls.

We again recommend the city:

- a. Establish and maintain a comprehensive detail ledger of general fixed assets and Water/Sewer Utility Fund assets.
- b. Ensure that surplus and retired assets are properly accounted for.
- c. Perform periodic physical inventories and reconcile to subsidiary ledgers.
- d. Provide a means to identify assets through a serial number or tag number.